

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF DELAWARE

PSC DOCKET NO. 06-241; REVIEW AND APPROVAL OF THE REQUEST FOR
PROPOSALS FOR THE CONSTRUCTION OF NEW GENERATION RESOURCES UNDER
26 DEL. C. § 1007(d)

Additional Point-Counterpoint on the Independent Consultant Evaluation

Jeremy Firestone

6 April 2007

Background

I submitted previous comments with Willett Kempton on March 5, 2007 (Preliminary Review of State Agencies' Evaluation of Proposals) and on March 20, 2007 (Point-Counterpoint on Consultant Evaluation of Proposals). The present comments address the Independent Consultant's April 4, 2007 IRP-RFP report.

Areas of Agreement

I agree with the IC that when considering whether new generation is warranted it is important to consider demand-side measures, potential retirement of existing supply, and potential for transmission upgrades. I also agree that the analysis must consider (indeed, it must be based on) a long-term fundamental shift in natural gas prices (Importantly, while Delmarva considers natural gas prices to be flat for 30 years, its sister company, Conectiv, is unwilling to make that assumption for even four years). I also agree with the IC that a utility-scale renewable energy project will offer Delmarva customers an important hedge against risks of future fuel shocks and the near certainty of carbon charges. Although not stated explicitly, the IC also appears to have appropriately concluded that wind is the only source of renewable energy that is currently available in our region at a price, scale, and implementation pace to function as that hedge.

Areas of Disagreement

I break the areas of disagreement into the same point-counterpoint format that was followed in the last set of comments, beginning where those comments left, with Comment 22.

Illegal Out-of-State Wind

Point 22: It is appropriate to consider a new RFP for out-of-state land-based wind.

Counterpoint 22: The legislation is very clear; the RFP is for new generation "within Delaware." While there is considerable discretion to consider energy supply and demand in the context of an IRP, that discretion is not unbridled. Although the IC may be "independent," it is not independent from the laws of the State of Delaware. Following the recommendations of the IC would render State agency decisionmaking arbitrary and capricious, an abuse of discretion, and beyond statutory authority. In sum, the question for the State agencies is solely whether a bid is cost-effective in meeting the mix of attributes set forth by the Legislature and not whether a bid is the lowest cost option available somewhere.

Non-Responsive Report

Point 23: The IC was responsive to the public

Counterpoint 23: The IC report did not accord the appropriate degree of respect for the public process in the RFP docket and did a disservice to the Commission and other State agencies that have made substantial efforts to ensure public involvement. The IC failed to acknowledge let alone address the written public comment and the unprecedented Town Meeting comment. Despite the fact that there were only four lengthy substantive written comments submitted by persons actively involved in this docket—two by my colleague Willett Kempton and I, one by Bluewater Wind and one by NRG—our comments were essentially ignored by the IC and its analysis (or lack thereof) of the price scale, carbon dioxide allowances, and health costs is particularly troubling.

Would Export Jobs to Delaware's Neighbors

Point 24: It may be in the best of interest of Delaware for Delmarva to enter into a long-term contract to purchase out-of-state power.

Counterpoint 24: I do not see why Delaware would want to export 1000 construction jobs and 50-100 permanent jobs for 25 years to Maryland or Pennsylvania. This seems to be diametrically opposed to the Delaware's carefully thought-out overall tax and economic development strategy. It also shows that the IC had a deaf ear to the impassioned pleas of Delaware labor at the Town Meetings that of utmost importance was to pick one of the three bids and to support Delaware working people. On the heels of job losses and impending job losses at Chrysler, Avon, and Bank of America, and given the possibility of significant economic development potential of being an early mover in offshore wind, it seems extremely short-sighted and indeed, detached, to suggest such an out-of-state job project.

A non-market market test with no benefit

Point 25: A market-test of the Bluewater wind project should be conducted using regional land-based wind.

Counterpoint 25: At this point in time, one could only run a test of a highly distorted market where the testee's (Bluewater's) bid price is known. Bidders will have an incentive to come as close as possible to Bluewater's bid without going over it. This behavior is a distinct possibility as there are only a very limited number of potentially qualified wind bidders. Also, there seems to be little to be gained from such a market test because we already know that offshore wind is likely to be more expensive than land-based wind and that there is unlikely to be even one site in the region where you could site a land-based wind power project that would generate comparable MWhs as the proposed Bluewater project. Between New York, New Jersey, Pennsylvania, Maryland, Ohio, West Virginia, and Virginia there exists today only one land-based wind project of 100 MW or greater—the 198 MW Maple Ridge Wind Farm Project in New York, and there are only three other planned—300 MW Mount Storm project in West Virginia, a 101 MW project in Maryland, and the 100 MW Freedom Wind Energy Project in Pennsylvania. See <http://www.awea.org/projects/index.html>. Given the lower capacity factors for land-based wind farms, it would take approximately 710 MW of nameplate land-based wind power to generate an equivalent amount of power as the Bluewater project (not counting the additional losses during transmission). Further, a land-based project, particularly one that would serve out-of-state energy consumption, is likely to face far more community resistance than the Bluewater project

that would be in Delaware serving Delawareans. Indeed, such a land-based project would score significantly worse on viability factors than the Bluewater bid. Indeed, the Bluewater bid is likely to receive a warm reception given the results of a scientific study of Delaware residents at www.ocean.udel.edu/windpower and attached hereto) and the wealth of favorable comments at the Town Meetings. In addition, because the “market test” would result in considerable delay, it could put the State and Delmarva customers at risk of Bluewater pulling out of the process, leaving no in-state renewable project to be considered; and as we previously commented, delay has serious health consequences for Delawareans.

Bid prices in context

Point 26: The Bluewater Full bid is \$493 million above the “IC case” over the life of the 25 year contract

Counterpoint 26: We appreciate that the IC put this figure in terms of net present value (NPV). And the figure is true enough for the “IC case.” While I recognize that it was provided in response to a request from Commissioner Clark; unfortunately, the IC failed to provide any context for that figure. It sounds like a great deal of money, but the question is what does it mean for the ratepayer? Using Delmarva’s figures, its residential customer class increased at an annual rate of 1.183% between December 31, 2005, and February 23, 2007. If one assumes the Bluewater contract would begin on January 1, 2013, and run for 25 years and that residential customers will increase at the same rate up to and for the duration of the contract, on average there will 326,868 residential customers. Dividing 493 million by the number of customers and then by dividing again by the number of years (25) and then by the number of months in a year (12), reveals that on average, monthly customers bills will increase by an average of just \$5.03 per month.¹ This number compares favorably to our earlier estimate of \$5.15, which we had constructed based on estimated MWh growth and used in Table 2 of the earlier Point-Counterpoint on Consultant Evaluation of Proposals to calculate the percent bill increase. Both these figures are conservative because they assume that all of costs will be borne by the residential customers and none by the small commercial and industrial customers.

We also can compare the \$493 million additional costs that the IC believes the Bluewater bid would engender to the 2006 rate increase. Delmarva on its website indicates that the average bill was expected to increase by \$54/month. Using the present number of Delmarva residential customers (263,418) in just three years—that is, from 2006 to 2009, Delmarva residential customers will pay an additional \$512 million or \$19 million more than the IC estimation of the effect of the Bluewater Bid for 25 years! Extrapolating out for 25 years (but holding the customer base at 263,418) results in \$4.3 billion in extra charges on those customers as a result of the recent Delmarva rate increase.

As deconstructed; I submit that the public, the Commission, and the three other State Agencies can make more sense of the IC’s estimates.

Only the RSCI portion of the SOS load should be considered

¹ Even if one uses the more conservative 300,000 residential customers that Delmarva employed in its IRP Response to Comments, that figure is only \$5.48 per month.

Point 27: The RFP is only directed to the residential and small commercial and industrial (RSCI) Standard Offer Service (SOS) load.

Counterpoint 27: The Electric Utility Retail Customer Supply Act of 2006 (EURCSA), 75 Del. Laws, c. 242, did not use the terms “residential and small commercial and industrial” or “RSCI” or even “residential customer.” And there is nothing in EURCSA that limits the RFP to RSCI customers. Rather, EURCSA uses the term “SOS.” Nor is there anything in the Delmarva-prepared RFP that limits the RFP to RSCI customers (although it uses the term SOS twenty-four times). According to Delmarva both SOS-FP and HPS (Hourly Priced Service) are types of SOS. As a result, the following customers receive SOS in addition to RSCI customers: Medium General Service-Secondary (MGS-S), Large General Service-Secondary (LGS-S), General Service-Primary (GSP), General Service-Transmission (GS-T). Delmarva’s February 2007 SOS capacity obligation was approximately 1200 MW, of which only 875.6 MW, or 73 percent was residential. According, only 73% of the \$493 million that the IC states the Bluewater bid is above market should be applied to RSCI customers, results in an average monthly residential bill increase of only \$3.66 (again assuming small commercial and industrial bear no share).

Phantom increases in Bluewater’s fixed-price bids

Point 28: Retirements, higher gas prices and other factors will increase the cost of the Bluewater Bid to Delmarva ratepayers.

Counterpoint 28: In Tables 9 and 10, the IC has the Bluewater wind bid price increasing with higher natural gas rates, increased load growth and additional retirements. These are phantom increases as the Bluewater bid is a fixed price bid that only rise in accordance with a fixed inflation index. Thus, in those tables, the Bluewater figure should be \$98.21 in each row. I can only assume that the IC raised the price of the Bluewater bid, because the IC assumed that the portion of the Delmarva supply that will not be supplied by Bluewater will increase with higher natural gas rates, increased load growth, and additional requirements, and thus Bluewater should be penalized. Assuming for the sake of argument that more capacity is needed, that does not mean that the price that Delmarva (and hence the price the ratepayers) will pay for purchases of power from the Bluewater offshore wind power project would increase; rather only that the Bluewater bid cannot in itself insulate ratepayers from all future market moves.

Inconsistency between the RFP and the IRP

Point 29: As stated in footnote 42, p. 32 of the IC Report, it is appropriate to ignore Synapse’s mid-case forecast for carbon dioxide allowances even though Synapse is the consultant the Commission has retained in the IRP docket.

Counterpoint 29: While the IC is free to “prefer” Delmarva’s low carbon dioxide allowance, it is not free to analyze the RFP in a manner that is inconsistent with the IRP. This is another example of the IC acting independently of Delaware law. While I would not object to the IC including its preferred analysis in the report provided the IC had and expressed a rational basis for its preference that would not obviate the responsibility of the IC, as the state’s consultant, to also analyze the bids using the Synapse forecasts, as Synapse is the IRP consultant. Further, the IC mistakenly referred to the Synapse mid-case forecast as “somewhat higher” than the low carbon dioxide allowance it and Delmarva prefer when in fact the Synapse mid-case is 62 percent higher. Because the IC had not previously undertaken such an analysis, we did. See Tables 2-5

of Firestone and Kempton, Point-Counterpoint on Consultant Evaluation of Proposals. As we documented in Table 2, assuming all other things equal, using the mid-Synapse allowance (and allocating the total increase to residential customers) cuts the percentage by which the Bluewater Full Bid would increase average monthly bills by more than half (3.35% to 1.43%). If the high-Synapse allowances are used, the Full Bid would result in a decrease in bills by 1.42% over the IC case.

As I have noted elsewhere “Given the risks of substantially higher coal and natural gas prices in the future, not accepting a Bluewater bid is likely to expose consumers to greater risks than any risk of stranded costs. This bid has many advantages for Delaware, given the high price stability, health benefits, and reductions in environmental impacts it will engender with a price that will be at most a modest increase and may even be a reduction. Given the criteria of HB 6, plus the potential benefits to the Delaware economy being a first or early mover in offshore wind, we see no reason why Bluewater and Delmarva should not proceed to expeditiously negotiate the details of a PPA.”

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jeremy Firestone". The signature is fluid and cursive, with the first name "Jeremy" and last name "Firestone" clearly distinguishable.

Jeremy Firestone

6 April 2007